COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2013

WEST COVINA, CALIFORNIA

Foothill Transit
Going Good Places

Prepared by Finance Department
Gil Victorio | Interim Director of Finance

Foothill Transit

GOING GOOD PLACES

West Covina, California

Comprehensive Annual Financial Report
For the Fiscal Years Ended
June 30, 2013 and 2012

Prepared by:
Finance Department

Gil Victorio
Interim Finance Director

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FOOTHILL TRANSIT
(A JOINT POWERS AUTHORITY)

JUNE 30, 2013 AND 2012

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(A JOINT POWERS AUTHORITY)

JUNE 30, 2013 AND 2012

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INTRODUCTORY SECTION

Foothill Transit

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Executive Board Memorandum

September 27, 2013

To: Executive Board

Subject: **Fiscal Year 2012-13 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

It is my pleasure to present the Comprehensive Annual Financial Report of Foothill Transit for the fiscal year ended June 30, 2013. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Foothill Transit. To the best of my knowledge and belief, the information presented is accurate in all material aspects and includes all disclosures necessary to enable the reader to gain an understanding of Foothill Transit's financial activities.

In addition to the financial audit, Foothill Transit is required to conduct an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations. Information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and auditors' reports on internal control structure and compliance with applicable laws and regulations are included with this report.

Independent Audit. The accounting firm of Lance, Soll & Lunghard, LLP was selected to perform an annual independent audit of Foothill Transit's financial statements. The goal of the independent audit was to provide reasonable assurance that Foothill Transit's financial statements for the fiscal year ended June 30, 2013, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified ("Clean") opinion that Foothill Transit's financial statements for fiscal year ended June 30, 2013, are fairly presented in conformity with generally accepted accounting principles (GAAP). The audit also was designed to meet the requirements of the Federal Single Audit Act of 1984 and related OBM Circular A-133. The auditor's report on the basic financial statements and schedules including reports specifically related to the single audit are included in this document.

Management's Representations. This report consists of management representations concerning Foothill Transit's finances. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, Foothill Transit's management has established a comprehensive internal control framework designed to ensure that the assets of Foothill Transit are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefit likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Management's Discussion and Analysis. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A that begins on page 3, and should be read in conjunction with it.

Reporting Entity. Foothill Transit, a joint powers authority of 22 cities and the County of Los Angles, is a public transit provider located in the San Gabriel and Pomona Valleys in Los Angeles County. Foothill Transit operates a fleet of 308 buses transporting 14 million passengers with 10.2 million vehicle service miles. The entire fleet is equipped with bicycle racks and is wheelchair accessible and 92.7 percent of the buses are powered by either compressed natural gas (CNG) or electricity.

Foothill Transit's investment transactions are conducted in conformance with internal investment policies and the State of California Government Code. The Executive Board has assigned the responsibility for investing to the Finance Director.

Local Economy. Foothill Transit provides service in the San Gabriel and Pomona Valleys located in the Los Angeles basin. It has been four years since the Los Angeles basin experienced the upheaval of the sub-prime loans which led to a depressed housing market affecting the construction, financial and housing related products sectors. Recently home sales especially non-distressed sales are beginning to increase reducing the current housing inventory, however new home construction has not experienced these same increases. Increases in home sales are the result of available mortgage money, the lowest interest rates in years and the easing in qualifying standards. Home construction is beginning to turn the corner with home sales trending upward. Other segments of the economy, especially high tech, entertainment and tourism sectors are experiencing improvement. Many households are eager to have the latest in computers, tablets, smart phones and other mobile devices which has contributed to the increase in consumer spending for technology products especially for high-tech manufacturers (semiconductors). The entertainment industry continues to recover with more motion pictures and commercials filmed locally, while television pilots have declined slightly. Tourism in the Los Angeles area has turned up with the additions of new hotels and with many amusement parks in the area adding new attractions. These increases have added to increases in hospitality related jobs. The up-turn in tourism could however be dampened by the weakening Euro. Other factors affecting many segments of the economy experiencing drops in sales are attributed to the State's budget crisis and double digit unemployment, which while high, is trending downward. The effects of the State's budget crisis have affected other agencies dependent on state revenues including schools, local governments and transit agencies. Government budgets are under extreme stress and may be faced with another round of job and program cuts related to decreased revenues. The largest increases in unemployment have come from the governmental sector with the highest unemployment in the Sacramento area. Agriculture has shown improvements in revenues and employment, with agriculture products being one of California's largest exports to the rest of the world. Businesses continue to defer investment spending because of the uncertainty of the economy, healthcare and decreasing US exports fueled by China's weakening economy.

Today we have a world with too much debt at international, national, state, local government and individual levels. The range of this debt includes countries like Greece facing bankruptcy to individual student loan debt. While the existence of this debt may not be by itself a bad thing, the resources required to service these debts reduces resources for growing the economy.

Consumers spending in all segments of the economy is necessary for a robust recovery. While consumers are increasing their spending, they are looking for bargains, even at high-end stores, which is affecting profit margins and recovery. Taxable sales continue to increase and will likely continue into 2014.

The economy continues with very moderate overall growth, which is an indication the recession is over, however at its current rate it will require several years, likely as late as 2018 before the economy is at pre-recession levels. The worst may be over in the private sector; however the public sector typically lags two years behind. The state's budget problems continue to affect California's economic recovery. The Governor's proposed tax increase was approved by the voters which should go a long way to reduce the State's budget deficit and remove the threat of future budget cuts. California's state businesses continue to experience uncertainty in today's adverse business climate. Businesses are doing more with less improving productivity, but are reluctant to make capital investments or hire full time employees, even though needs exist.

Personal income in California is outpacing the country. This is owed in part to the types of jobs in California, a higher percentage with salaries in the $50,000 per year category. The recent growth (2.0%) in personal income is not producing corresponding increases in consumer demand. Increased fuel costs have affected consumer's basis needs, i.e. food, electricity, clothing, commuting, and eliminating the increase in personal income.

The FY 2013 budget assumed that the moderate growth experienced in FY 2012 would continue throughout 2013 and into 2014. With the State's budget problems and a sluggish economy the likelihood of any substantial improvement is more than two years away. UCLA has forecasted the weakest economic recovery of the postwar era.

The majority of Foothill Transit's funding is provided from Propositions A and C and Measure R, local sales taxes. While consumers still feel somewhat tentative about their economic situation, their outlook has improved prompting them to increase spending for discretionary goods. While increased spending will put upward pressure on the collection of sales taxes, the Fiscal year 2013 budget was prepared with revenues, service, and fares at current levels to balance the budget.

New capital acquisitions and/or construction projects and those carried forward from the previous year include Park and Ride parking structure(s), new replacement buses and the purchase of Zero Emission electric buses. The Park and Ride Facility (facilities) will allow greater utilization of current bus service potentially increasing fare revenue. The purchases of replacement buses will reduce operational expenses eliminating major repairs. The zero emission electric buses will reduce maintenance costs and eliminate all emission currently attributed to compressed natural gas buses. Sufficient funding (grants) has been dedicated for the completion of these projects

Future capital projects may be limited because of the unavailability of the needed local matching funding required to utilize federal grants. While sufficient local funding will be available for operations, grant restrictions may limit the availability of these funds for capital projects. In the event local funding is not available, Foothill Transit will need to reallocate capital funding.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Foothill Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the ninth consecutive year that Foothill Transit has received this prestigious award. This certificate of award is the highest form of recognition for excellence in state and local government financial reporting.

In order to receive this award, Foothill Transit must publish an easily readable and well organized comprehensive financial report whose content conforms to the program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

Foothill Transit

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The Certificate of Achievement for Excellence in Financial Reporting is valid for a one year period only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and are submitting it to determine eligibility for another certificate.

Acknowledgments. The preparation of this report would not have been possible without the efficient and dedicated service of the entire Finance Department. We wish to express our sincere appreciation for the hard work and long hours that contributed to the preparation of this report. Appreciation is also extended to the Executive Board and the various departments for their cooperation and dedicated service that made it possible to produce a report of the highest standards.

Sincerely,

Gil Victorio
Interim Director of Finance

Doran Barnes
Executive Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Foothill Transit

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director

Foothill Transit

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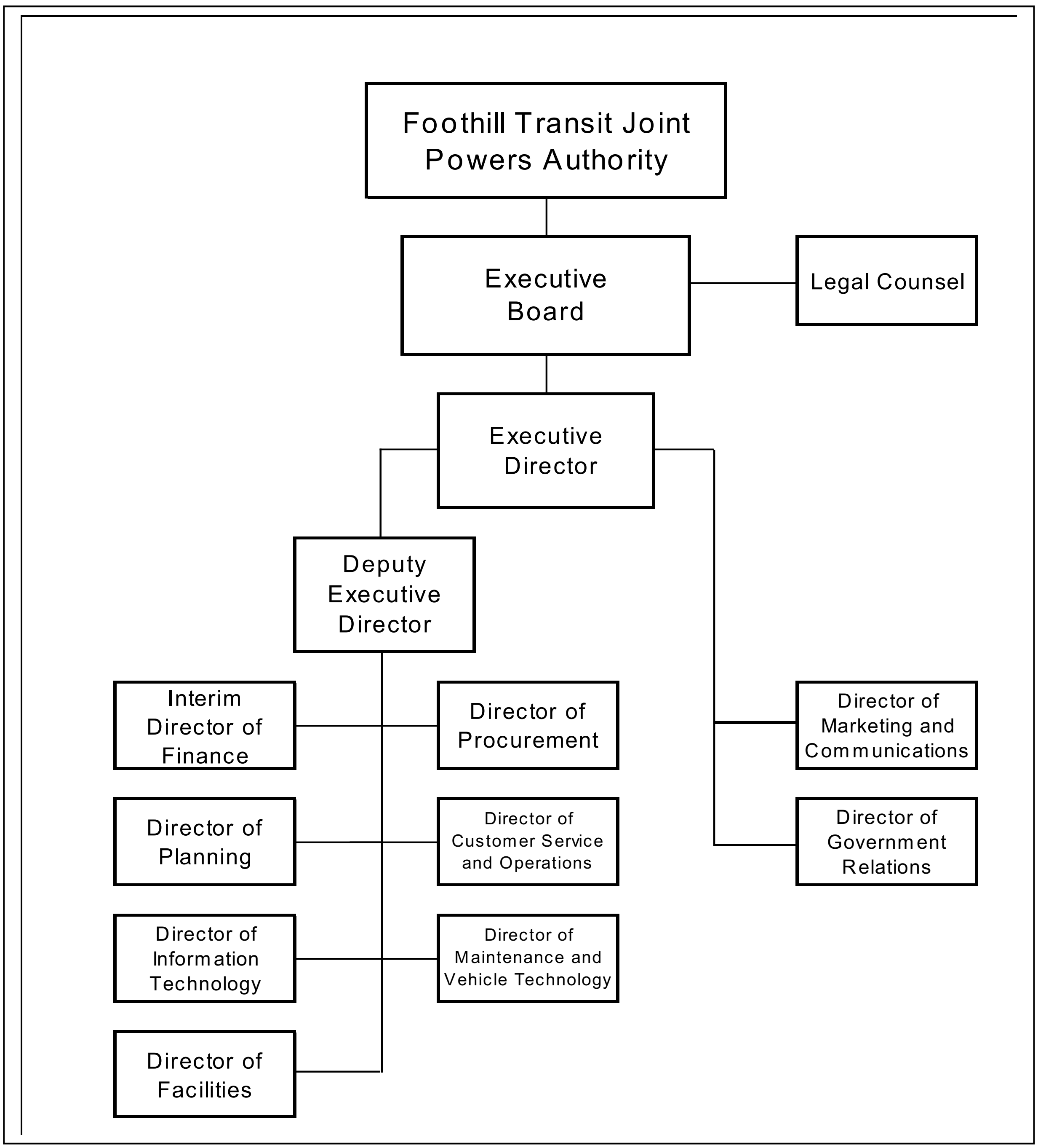
(A Joint Powers Authority)

Organization Chart



Foothill Transit

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(A Joint Powers Authority)

Executive Board

Doug Tessitor
Chair

Paula Lantz
Vice Chair

Carol Herrera
Treasurer/
Auditor Controller

Margret McAustin
Member

Michael De La Torre
Member

Member Agencies

Arcadia
Bradbury
Diamond Bar
Glendora
La Puente
Monrovia
San Dimas
Walnut
West Covina

Azusa
Claremont
Duarte
Industry
La Verne
Pasadena
South El Monte

Baldwin Park
Covina
El Monte
Irwindale
Los Angeles County
Pomona
Temple City

Senior Staff

Doran Barnes
Executive Director

Kevin McDonald
Deputy Executive Director

Felicia Friesema
Director of Marketing and Communications

LaShawn Gillespie
Director of Customer Service and Operations

Donald Luey
Director of Information Technology

Sharlane Bailey
Director of Facilities

Joseph Raquel
Director of Planning

Gil Victorio
Interim Director of Finance

Roland Cordero
Director of Maintenance and Vehicle Technology

David Reyno
Director of Government Relations

Bobby Magee
Director of Procurement

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FINANCIAL SECTION

LSL
CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Foothill Transit (A Joint Powers Authority)

We have audited the accompanying financial statements of business-type activities information of the Foothill Transit Authority, West Covina, California (the Authority) as of and for the year ended June 30, 2013, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Authority's 2012 financial statements and, in our report dated September 19, 2012; we expressed unqualified opinions on the respective financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities information of the Authority, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lance, Soll & Lunghard, LLP 203 North Brea Boulevard • Suite 203 • Brea, CA 92821 • TEL 714.672.0022 • Fax 714.672.0331 **www.lslcpas.com**
Orange County Temecula Valley Silicon Valley

To the Board of Directors
Foothill Transit (A Joint Powers Authority)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations, and is also not a required part of the financial statements.

The accompanying schedule of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013

FOOTHILL TRANSIT
(A Joint Powers Authority)

Management's Discussion and Analysis
June 30, 2013

The following section of the annual financial report of Foothill Transit includes an overview and analysis of Foothill Transit's financial position and activities for the year ended June 30, 2013. This discussion and analysis should be considered in conjunction with the basic financial statements which it accompanies. These statements are the responsibility of the management of Foothill Transit.

Introduction to the Basic Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37. *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures and No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Foothill Transit presents its basic financial statements using the economic resources measurement focus and accrual basis of accounting. As a special purpose government engaged in business-type activity, Foothill Transit's basic financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. Notes to the basic financial statements and required supplementary information, including this section, support these statements. All sections must be considered together to obtain a complete understanding of the financial position and results of operations of Foothill Transit.

Statement of Net Position: The Statement of Net Position includes all assets and liabilities of Foothill Transit, with the difference between the two reported as net position. Assets and liabilities are reported at their book value, on an accrual basis, as of June 30, 2013 and 2012. This statement also identifies major categories of restrictions on the net position of Foothill Transit.

Statement of Revenues, Expenses, and Changes in Net Position: The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred by Foothill Transit during the years ended June 30, 2013 and 2012, on an accrual basis.

Statement of Cash Flows: The Statement of Cash Flows presents the changes in Foothill Transit's cash and cash equivalents for the years ended June 30, 2013 and 2012, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows and, therefore, presents gross rather than net amounts for the years' activities.

Foothill Transit's basic financial statements can be found on pages 9-12 of this report.

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 13-26 of this report.

FINANCIAL HIGHLIGHTS

- During fiscal year 2012–2013, Foothill Transit's net position decreased $2,477,186 (1.40%) from the end of the previous year that included the disposal of $4,541,214 and acquisition of $14,902,303 of capital assets, exclusive of depreciation. The capital additions were funded by federal, state, and local grants.

- In fiscal year 2012–2013, operating expenses before depreciation increased $948,003 (1.5%) over the previous year. This increase was attributed primarily to increases for transit operations, $236,215 million (0.5%) and management services contract expenses, $633,433 (8.7%), general and administrative expenses, 117,665 (5.1%) experienced during the year. During the fiscal year ended June 30, 2013, fuel costs decreased slightly 1.0 percent or $64,708 when compared to the previous fiscal year. The decrease in fuel was attributable to reduced cost of crude oil.

FINANCIAL HIGHLIGHTS (Continued)

- Foothill Transit's assets exceeded its liabilities at June 30, 2013, by $174.3 million (net position). Of this amount, $148.9 million represents Foothill Transit's net investment in capital assets, and the remainder, $25.3 million is restricted for future capital acquisitions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed Summary of Net Position

	2013	2012	Change
Current assets	$ 85,492,303	$ 75,412,106	$ 10,080,197
Capital assets, net	148,897,686	153,006,109	(4,108,423)
Total assets	234,389,989	228,418,215	5,971,774
Current liabilities			
Non-current liabilities	8,428,091	9,036,205	(608,114)
Total liabilities	51,681,270	42,624,196	9,057,074
	60,109,361	51,660,401	8,448,960
Net position			
Net Investment in Capital Assets	148,897,686	152,006,109	(3,108,423)
Restricted	25,382,942	24,751,705	631,237
Total net position	$ 174,280,628	$ 176,757,814	$ (2,477,186)

As mentioned earlier, net position can serve as an indicator of financial health. Foothill Transit's net position exceeded liabilities by $174,280,628 as of June 30, 2013. Most of this amount or $148,897,686 relates to Foothill Transit's investment in capital assets (property, plant, and equipment) net of related debt (capital assets). Foothill Transit uses these capital assets to provide transportation services to the San Gabriel Valley; consequently, these assets are not available for future spending. These capital assets were procured with federal, state, and local grant funds. The remaining restricted net position totaled $25,382,942 and represent amounts that are restricted by law or contractual arrangement for specific purposes.

Foothill Transit's net position decreased approximately $2,477,186 during fiscal year 2012-2013. This decrease is primarily the depreciation of capital assets funded with capital grant revenues that exceeded capital purchases.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Management's Discussion and Analysis
June 30, 2013

Condensed Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	Change
Operating revenues:			
Farebox and bus pass	$ 18,441,434	$ 18,496,259	$ (54,825)
Special services	254,517	204,227	50,290
Dial-A-Ride	714,543	729,537	(14,994)
Liquidated damages	33,000	97,100	(64,100)
Other revenue	106,995	58,361	48,634
Total operating revenues	19,550,489	19,585,484	(34,995)
Nonoperating revenues:			
Proposition A revenue	17,037,338	17,211,004	(173,666)
Proposition C revenue	3,669,002	3,516,039	152,963
FTA Section 5307	-	761,015	(761,015)
CMAQ	506,488	-	506,488
STA operations	4,890,137	3,295,652	1,594,485
Measure R	7,886,309	8,779,338	(893,029)
Transportation Development Act	9,786,046	9,643,828	142,218
Total nonoperating revenues	43,775,320	43,206,876	568,444
Other revenues:			
Interest Revenue (Expense)	101,057	(122,187)	223,244
Property Management	(184,964)	(256,034)	71,070
Gain (Loss) on disposal of assets	320,719	3,154	317,565
Total other revenues	236,812	(375,067)	611,879
Total revenues	$ 63,562,621	$ 62,417,293	$ 1,145,328
Operating expenses:			
Transit operations	$ 44,936,529	$ 44,700,314	$ 236,215
Fuel costs	5,834,816	5,899,524	(64,708)
Management service contract	7,927,140	7,293,707	633,433
Special services	168,930	131,384	37,546
Dial-A-Ride	702,729	718,033	(15,304)
Professional services	1,187,901	1,264,497	(76,596)
Advertising	397,940	318,188	79,752
General and administrative	2,406,636	2,288,971	117,665
Depreciation	18,971,618	17,632,250	1,339,368
Total operating expenses	82,534,239	80,246,868	2,287,371
Loss before capital contributions	(18,971,618)	(17,829,575)	(1,142,043)

Continued on next page

Continued from previous page	2013	2012	Change
Loss before capital contributions	$ (18,971,618)	$ (17,829,575)	$ (1,142,043)
Capital contributions:			
Proposition C	2,578,725	5,970,133	(3,391,408)
Federal grants	8,678,882	10,618,400	(1,939,518)
AQMD	-	193,865	(193,865)
Proposition 1B	4,624,005	120,998	4,503,007
Transportation Development Act	412,909	113,824	299,085
Other	199,911	252,086	(52,175)
Total capital contributions	16,494,432	17,269,306	(774,874)
Change in net position	(2,477,186)	(560,269)	(1,916,917)
Net Position at beginning of year	176,757,814	177,318,083	(560,269)
Net Position at end of year	$ 174,280,628	$ 176,757,814	$ (2,477,186)

Revenues

Operating revenues decreased $34,995 or 0.18%. This decrease reflects no significant change in ridership and the result of improved revenue collections implemented last year. Nonoperating grant revenues increased $568,444 and capital grant revenues decreased $774,874. These grant revenues subsidized Foothill Transit's operating and capital expenses. Since Foothill Transit requires subsidies to fund operating and capital expenses in excess of operating revenues, any increases or decreases in unfunded expenses will also require an increase or decrease in related grant funding. The decrease in capital contributions was related to the slight decrease in the acquisition of capital assets. During the previous fiscal year Foothill Transit capital acquisitions were $16.2 million.

Expense

Total operating expenses before depreciation increased $948,003 (1.5%). Fuel cost decreased $64,708 and transit operations cost increased $236,215. The cost for compressed natural gas (CNG) fuel has remained stable while diesel fuel prices have fluctuated throughout the year. With a bus fleet that is 92.7% CNG and electric, Foothill Transit had the ability to alternate between the uses of CNG, electric or diesel buses to minimize costs. The transit operations expense increase of $236,215 or 0.53% reflects the new contracts executed at our Arcadia and Pomona Facilities for operations. Depreciation expense increased $1.3 million (7.6%). This increase in depreciation is attributed to the age of the bus fleet.

Capital Assets

At the end of the current fiscal year, Foothill Transit had $148,897,686 (net of accumulated depreciation) invested in capital assets. This was a 2.7% decrease over the previous fiscal year. These assets include land, facilities, transit buses, other operating equipment, vehicles, and furniture and fixtures listed on the next page.

	2013	2012
Land	$ 10,132,713	$ 10,132,713
Construction in progress	12,142,848	2,695,539
Facilities	54,417,897	56,213,155
Transit buses	55,929,598	66,910,397
Other operating equipment	15,686,532	16,738,790
Vehicles	495,397	234,279
Furniture and fixtures	92,701	81,236
Total capital assets, net of accumulated depreciation	$ 148,897,686	$ 153,006,109

All assets have been purchased with federal, state, or local grants awarded to Foothill Transit. Significant capital projects during fiscal years 2013 and 2012 include the following:

Fiscal year 2013:

- Bus Fleet Expansion ($146,000)
- City of Industry Park and Ride Facilities ($9.2 million)
- City of Azusa Park and Ride Facilities ($202,000)
- Bus and Facility Surveillance/Safety Equipment ($2.5 million)

Fiscal year 2012:

- Bus Fleet Expansion ($8.6 million)
- Solar Power Projects - Arcadia & Pomona ($1.6 million)
- Park and Ride Facilities ($945,400)
- Fare Collection Equipment ($618,000)
- Bus and Facility Surveillance/Safety Equipment ($924,200)
- Bus Cooling System retrofit ($1.3 million)

More detailed information about Foothill Transit's capital assets can be found in Note 6 in the accompanying notes to basic financial statements.

LONG TERM DEBT

At the end of the current fiscal year Foothill Transit had no long-term debt. All debt was paid off during the 2013 fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for fiscal year 2013 assumes economic conditions will remain unchanged, neither an improvement nor decline for the Los Angeles basin as discussed on page iii. With some sectors of the economy experiencing improvements and others uncertainty, it is difficult to pin point when the economy will fully recover from the current recession. Most experts agree the economy is improving but full employment may be three to five years into the future. Unlike previous recession's job have been permanently eliminated eliminating the possibility of unemployed workers returning to their previous jobs. Another variable effecting recovery are the many world economies teetering on bankruptcy making it very difficult to pin point when recovery will begin. Foothill Transit's single largest revenue source, sales tax, representing more than 60 percent of the fiscal year revenue is dependent on consumer demand which is increasing, however at a very slow pace. The main economic factors affecting Foothill Transits financial capacity to deliver transportation programs and projects include:

Economic conditions influencing local sales tax revenue
Capital grant revenue availability
Fuel and operation costs

These factors were considered when preparing the Foothill Transit fiscal year 2014 budget. A review of current fares and service levels were completed during fiscal year 2013 to determine if adjustments were needed to prepare a balanced budget for fiscal year 2014. While no adjustment were indicated, the adjustments implemented in FY 2011 (service levels adjustments and a fare increase) have served Foothill Transit well allowing for the preparation of a balance FY 2014 budget without utilizing available reserves.

FURTHER INFORMATION

This report has been designed to provide a general overview of Foothill Transit's financial condition and related issues for those with an interest in Foothill Transit's finances. Inquiries should be directed to the Finance Director, 100 South Vincent Avenue, Suite 200, West Covina, CA 91790.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Statements of Net Position

June 30, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash and investments	$ 76,183,009	$ 66,840,828
Due from other governmental agencies	5,231,772	7,590,561
Receivables	1,749,714	911,412
Interest receivable	6,098	4,455
Prepaid items	2,321,710	64,850
Total current assets	85,492,303	75,412,106
Noncurrent assets:		
Capital assets	292,812,683	282,451,594
Less accumulated depreciation and amortization	(143,914,997)	(129,445,485)
Total noncurrent assets	148,897,686	153,006,109
Total assets	$ 234,389,989	$ 228,418,215
Liabilities and Position		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,428,091	$ 8,036,205
Lease payable, current	-	1,000,000
Total current liabilities	8,428,091	9,036,205
Noncurrent liabilities:		
Unearned revenue	51,681,270	42,624,196
Total noncurrent liabilities	51,681,270	42,624,196
Total liabilities	60,109,361	51,660,401
Net position:		
Net Investment in Capital Assets	148,897,686	152,006,110
Restricted for:		
Capital projects	25,382,942	24,751,704
Net Position	174,280,628	176,757,814
Total liabilities and net position	$ 234,389,989	$ 228,418,215

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
(A Joint Powers Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Farebox and bus pass	$ 18,441,434	$ 18,496,259
Special services	254,517	204,227
Dial-A-Ride	714,543	729,537
Liquidated damages	33,000	97,100
Other revenue	106,995	58,361
Total operating revenues	19,550,489	19,585,484
Operating expenses:		
Operating expenses before depreciation and amortization:		
Transit operations	44,936,529	44,700,314
Fuel costs	5,834,816	5,899,524
Management service contract	7,927,140	7,293,707
Special services	168,930	131,384
Dial-A-Ride	702,729	718,033
Professional services	1,187,901	1,264,497
Advertising	397,940	318,188
General and administrative	2,406,636	2,288,971
Operating expenses before depreciation and amortization	63,562,621	62,614,618
Depreciation and amortization expense	18,971,618	17,632,250
Total operating expenses	82,534,239	80,246,868
Operating loss	(62,983,750)	(60,661,384)
Nonoperating revenues:		
Operating grants:		
Proposition A Formula Subsidy	13,026,271	13,414,216
Proposition A Bus Service Continuation Program	4,011,067	3,796,788
Proposition C Transit Service Expansion – Line 690	302,245	295,912
Proposition C Base Restructuring	1,813,737	1,775,736
Proposition C BSIP – Overcrowding Relief	844,426	826,733
Proposition C 5% Transit Security	708,594	617,658
Measure R	7,886,309	8,779,338
CMAQ	506,488	-
FTA Section 5307 Preventive Maintenance	-	761,015
STA operations	4,890,137	3,295,652
Transportation Development Act – Operating Grant Portion	9,786,046	9,643,828
Total operating grants	43,775,320	43,206,876

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
(A Joint Powers Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Other income (expense):		
Interest income	$ 101,057	$ 75,137
Rental income	376,894	369,272
Security plan joint development grant	23,717	99,694
Interest expense	-	(197,324)
Security plan joint development expense	(23,717)	(99,694)
Property management expense	(561,858)	(625,306)
Gain on disposal of assets	320,719	3,154
Total other income, net	236,812	(375,067)
Total nonoperating revenues, net	44,012,132	42,831,809
Loss before capital contributions	(18,971,618)	(17,829,575)
Capital contributions:		
Proposition C 5% Transit Security	-	21,574
Proposition C Call for Projects	135,138	3,974,295
Proposition C MOSIP	2,443,587	1,974,264
AQMD – MSRC	-	193,865
FTA Section 5307	1,636,647	4,604,265
FTA Section 5307 ARRA	513,794	2,022,249
FTA Section 5309	5,446,236	2,563,476
CMAQ	-	460,737
Homeland security	1,082,205	967,673
Proposition 1B	4,624,005	120,998
Transportation Development Act – Capital Grant Portion	412,909	113,824
Other	199,911	252,086
Total capital contributions	16,494,432	17,269,306
Change in net position	(2,477,186)	(560,269)
Net position at beginning of year	176,757,814	177,318,083
Net position at end of year	$ 174,280,628	$ 176,757,814

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
(A Joint Powers Authority)
Statements of Cash Flows
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 18,656,729	$ 20,081,806
Cash received from liquidated damages	16,855	180,350
Cash received from other revenue	106,995	58,361
Cash paid for transit operations	(47,081,025)	(42,437,317)
Cash paid for fuel costs	(5,010,217)	(7,164,145)
Cash paid for management service contract	(7,994,140)	(7,193,707)
Cash paid for special services	(168,930)	(132,201)
Cash paid for Dial-a-Ride	(717,620)	(724,198)
Cash paid for professional services	(1,050,026)	(1,264,497)
Cash paid for advertising	(371,609)	(292,683)
Cash paid for general and administrative services	(2,471,764)	(2,075,717)
Net cash used in operating activities	(46,084,752)	(40,963,948)
Cash flows from noncapital financing activities:		
Operating grants	50,227,493	45,519,818
Net cash provided by noncapital financing activities	50,227,493	45,519,818
Cash flows from capital and related financing activities:		
Cash received from capital grants	19,874,056	21,608,634
Purchase of capital assets	(13,909,786)	(18,527,922)
Principal paid on capital leases	(1,000,000)	
Proceeds from sale of capital assets	320,719	3,154
Proceeds from rental property	376,894	369,271
Rental property expense	(561,858)	(625,306)
Net cash provided by capital and related financing activities	5,100,025	2,827,831
Cash flows from investing activities:		
Interest received	99,415	54,748
Net cash provided by investing activities	99,415	54,748
Net increase in cash and cash equivalents	9,342,181	7,438,449
Cash and cash equivalents at beginning of year	66,840,828	59,402,379
Cash and cash equivalents at end of year	$ 76,183,009	$ 66,840,828
Reconciliation of net operating expenses to net cash used in operating activities:		
Operating loss	$ (62,983,750)	$ (60,661,384)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	18,971,618	17,632,250
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(215,130)	3,646,684
Decrease (increase) in prepaid items	(2,256,860)	94,058
(Decrease) increase in accounts payable and accrued liabilities	399,370	(1,675,556)
Total adjustments	16,898,998	19,697,436
Net cash used in operating activities	$ (46,084,752)	$ (40,963,948)
Non-cash investing and financing activities:		
Gain on disposal of assets	$ 320,719	$ 3,154

See accompanying notes to basic financial statements

Note 1: Organization

Foothill Transit was established in 1988 as a governmental entity under a joint exercise of powers agreement and currently includes 22 cities in the San Gabriel Valley and the County of Los Angeles. Foothill Transit's governing board membership includes one city council member and one alternate from each of the 22 cities in Foothill Transit's service area as well as three appointed representatives for the County of Los Angeles. A five member Executive Board governs Foothill Transit. Four elected officials representing four clusters of cities, and a fifth member elected by the appointed Los Angeles County representatives, comprise Foothill's Executive Board. Through its independent service contractors, Foothill Transit operates a fleet of 308 buses from its Arcadia and Pomona, California facilities. Foothill Transit has been authorized by the Los Angeles County Metropolitan Transportation Authority (LACMTA) to plan, operate, and contract for cost-effective public transit services.

Foothill Transit is a Public Private Partnership with most management and administrative staff provided under contract by Veolia Transportation. Transit operations services are also provided by independent contractors. Substantially all insurable risks associated with Foothill Transit's operations are covered through these contracts.

Note 2: Summary of Significant Accounting Policies

a. Basis of Presentation

Foothill Transit accounts for its activities, which are maintained using the economic resources measurement focus on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period incurred.

b. New Accounting Pronouncements

In fiscal year 2013, Foothill Transit adopted GASB 63 and 65 which provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. GASB 62 was also adopted that establishes accounting and financial reporting standards for the financial statements of state and local governments. There was no material impact on the Foothill Transit's results of operations or financial condition upon adoption of the new standards.

c. Classification of Current and Noncurrent Assets and Liabilities

Foothill Transit considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net position date. Liabilities that reasonably can be expected, as part of normal Foothill Transit business operations, to be liquidated within 12 months of the balance sheet date are considered to be current. All other assets and liabilities are considered to be noncurrent.

d. Grants and Subsidies

Grant and subsidy revenues are recorded when earned. Grant sources currently include Los Angeles County Propositions A, C and Measure R, which are local sales tax initiatives passed by the voters of Los Angeles County, Local Transportation Funds (LTF) described below and Federal Transit Administration (FTA) capital assistance.

Note 2: Summary of Significant Accounting Policies (Continued)

Foothill Transit receives substantial grant funds from these various County, State, and Federal entities. Funds received from such entities are subject to certain required terms and conditions of the underlying grant agreements and are subject to audit by the grantor agencies. Amounts received under such grants and contractual agreements are subject to change based on the results of such audits.

Transportation Development Act (TDA) funds and State Transit Assistance (STA) are received for both operating and capital expenses. These funds are derived from the State Local Transportation Funds (LTF) and are allocated to Foothill Transit using the Formula Allocation Procedures. These funds can be used for capital and operating purposes, however Foothill Transit's goal is to use them to the extent possible as a local match on federally funded projects (capital).

Note 2: Summary of Significant Accounting Policies (Continued)

Federal Grants

As of June 30, 2013, Foothill Transit has several active grants with the FTA. The active grants are as follows:

	Grant number	CFDA number	Purpose	Award Amount	Status
1.	CA-04-0093	20.500	San Gabriel Valley Park and Ride	$12.92M	Awarded: September 2008
2.	CA-96-X010	20.507	Electric Bus Project/ Facility Improvements/ Preventative Maintenance	$21.36M	Awarded: August 2009
3.	CA-90-Y797	20.507	Purchase of 12 CNG buses $5.9M/ Preventive Maintenance $8.4M	$14.37M	Awarded: October 2009
4.	2008-RL-T8-K0018	20.507	Joint Development of Threat Assessment; Front Line-Upper Management Awaremess	$1.25M	Awarded: May 2009
5.	2009-RA-T9-K019	20.507	Facility Security Hardening; Silver Streal Surveillance Camers	$2.1M	Awarded: July 2009
6.	CA-04-0210	20.500	Park & Ride/CNG Bus Replacement	$4.1M	Awarded: September 2011
7.	CA-90-Y653	20.507	FY08 Preventive Maintenance; West Covina Park & Ride	$7.6 M	Awarded: August 2008
8.	CA-90-Y987	20.507	CNG Fueled Replacement Buses	$31.0M	Awarded: July 2012
9.	CA-04-0253	20.500	Electric Cooling Retrofit	$1.5M	Awarded: August 2012
10.	CA-95-X138	20.507	Express Lanes-Operating Assistance	$3.2M	Awarded: July 2008
11.	CA-88-0002	20.523	Electric Buses	$11.3M	Awarded: August 2011

Note 2: Summary of Significant Accounting Policies (Continued)

e. Operating and Nonoperating Revenues and Expenses

Foothill Transit distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with Foothill's principal ongoing operations. The principal operating revenues are passenger fares charged for transportation service to the San Gabriel Valley. Operating expenses include the cost of transportation services, maintenance of capital assets and facilities, administrative expenses, and depreciation reported on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating assistance grants are included as nonoperating revenues in the year in which a related reimbursable expense is incurred or in unearned revenue for use in a subsequent fiscal year.

Foothill's policy is to report revenue from capital grants separately after nonoperating revenues as the related expenses are incurred. Assets acquired with capital grant funds are included in capital assets. Capital monies received prior to an expense being incurred are recorded as unearned revenue.

f. Election of Applicable FASB Statements

Foothill Transit applies all Governmental Accounting Standards Board (GASB) pronouncements and has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

g. Investments

Foothill Transit reports investment securities and similar assets held for investment purposes at fair value. Except for cash and cash equivalents such as negotiable certificates of deposit (which are carried at face value), the fair value of substantially all such investments is based on the published market prices of publicly traded securities.

h. Capital Assets

Capital assets which include property, plant, and equipment are defined by Foothill Transit as assets with an initial value exceeding $500 and having an estimated useful life of more than one year. Capital assets are valued at historical cost. Donated assets are valued at estimated fair market value at the date of donation. Foothill Transit did not

Note 2: Summary of Significant Accounting Policies (Continued)

receive any donated capital assets during fiscal years 2013 and 2012. Capital assets are depreciated over their estimated useful lives using the straight-line method.

The following estimated useful lives are used for Foothill's capital assets:

Facility	20 to 31.5 years
Other improvements	3 to 7 years
Transit buses and rehabilitation costs	5 to 12 years
Other operating equipment	3 to 9 years
Vehicles	5 years
Furniture and fixtures	7 years

i. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

j. Net position flow assumption

Sometimes Foothill Transit will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is Foothill Transit's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 2: Summary of Significant Accounting Policies (Continued)

k. Cash and Cash Equivalents

For the purpose of the statement of cash flows, Foothill Transit considers cash, demand deposits and investment pools to be cash and cash equivalents.

In addition all cash invested in the state investment pool, Local Agency Investment Fund (LAIF), are stated at their fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than a forced liquidation sale).

l. Unearned Revenue

Unearned revenue is composed entirely of grant funds which Foothill Transit has received in advance for operations, capital acquisition, or construction but which have not been expended and therefore not earned at June 30, 2013.

m. Net Position

Foothill Transit's net position is classified into the following net position categories:

1. Net Investment in Capital Assets

   Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

2. Restricted

   Net position that has external constraints placed on it by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through contribution provision of enabling legislation.

3. Unrestricted

   Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." Unlike the restricted net position, the board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The board may at any time change or eliminate amounts established for these purposes. There was no unrestricted net position as of June 30, 2013 and 2012.

Note 2: Summary of Significant Accounting Policies (Continued)

n. Nonexchange Transactions

Foothill Transit recognizes all capital grants as capital contributions in the statements of revenues, expenses, and changes in net position.

o. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

p. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Note 3: Cash and Investments

As a public agency, Foothill Transit's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Foothill Transit's statement of investment policy is approved by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held.

Cash and investments at June 30, 2013 and 2012, were reported in the accompanying financial statements as follows:

	2013	2012
Cash and investments	$ 76,183,009	$ 66,840,828

Deposits

At June 30, 2013, the carrying amount of Foothill Transit's deposits was $35,262,781 and the bank balance was $35,940,827. The difference of $678,046 represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an Entity's deposits by pledging government securities with a value of 110% of an Entity's deposits. California law also allows financial institutions to secure the Entity's deposits by pledging first trust deed mortgage notes having a value of 150% of the Entity's total deposits. The Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking.

Note 3: Cash and Investments (Continued)

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments

Under provision of Foothill Transit’s investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Checking Account Demand Deposits
- Passbook Savings Account Demand Deposits
- Money Market Mutual Funds
- Local Agency Investment Fund (LAIF) Demand Deposits
- Obligations of the U.S. Government, its agencies, and instrumentalities Federal Agency obligations
- Municipal Securities (California cities and local agencies) rated “A” or better by Moody’s or S&P
- Certificates of deposit
- Negotiable Certificates of Deposits, federally insured with the issuer
- Banker’s Acceptances, issued by domestic or foreign banks, which are eligible for purchases by the Federal Reserve System
- Repurchase Agreements used solely for short-term investments not to exceed 30 days
- Bonds issued by any city, county, or local agency in California or by the State of California

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or Foothill Transit’s investment policy.

Investments in State Investment Pool

Foothill Transit is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares. The Fund is principally invested in obligations of federal government agencies, U.S. Treasury securities, certificates of deposit, and commercial paper. The Fund’s manager considers the credit risk as minimal. The Fund is protected against fraudulent acts by the state’s self-insurance program.

Note 3: Cash and Investments (Continued)

GASB Statement No. 31

Foothill Transit adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

Credit Risk

Foothill Transit's investment policy limits investments in municipal securities, negotiable certificates of deposits, and banker's acceptances to those rated "A" or better and repurchase agreements and bonds to those rated in the highest category by Moody's or S&P. As of June 30, 2013, Foothill Transit's investments did not include any of those listed above. As of June 30, 2013, Foothill Transit's investment in the State Investment Pool has not been rated by a nationally recognized statistical rating organization.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2013, none of Foothill Transit's deposits or investments were exposed to custodial credit risk.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the authority's investment policy limits the authority's portfolio to maturities of less than five years. Foothill Transit has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Note 3: Cash and Investments (Continued)

As of June 30, Foothill Transit had the following investments and remaining maturities:

	2013		
	Remaining Investment Maturities		
Investment Type:	Less Than 1 year	2 Years	Fair Value
Money Market	$ 22,140,418	$ -	$ 22,140,418
Certificates of Deposit	6,739,000	-	6,739,000
US Treasury Notes	1,997,978	-	1,997,978
Local Agency Investment Fund	10,042,832	-	10,042,832
Total	$ 40,920,228	$ -	$ 40,920,228

	2012		
	Remaining Investment Maturities		
Investment Type:	Less Than 1 year	2 Years	Fair Value
Money Market	$ 20,417,361	$ -	$ 20,417,361
Certificates of Deposit	6,988,000	-	6,988,000
US Treasury Notes	1,998,787	-	1,998,787
Local Agency Investment Fund	5,015,714	-	5,015,714
Total	$ 34,419,862	$ -	$ 34,419,862

Note 4: Due from Other Governmental Agencies

At June 30, 2013 and 2012, amounts due from other governmental agencies consist of the following and are expected to be collected within one year:

	2013	2012
Section 5307 Capital Grant – FTA	$ 821,751	$ 4,542,304
Homeland Security	-	125,494
Transportation Development Act (TDA)	1,487,643	1,463,255
State Transit Assistance	1,845,093	823,913
Proposition C Call For Projects	175,172	-
Proposition C MOSIP	781,930	290,777
AQMD	7,886	10,760
LA Metro	56,128	175,473
Retail Pass Sales	56,169	158,585
Total	$ 5,231,772	$ 7,590,561

Note 5: Other Receivables

At June 30, 2013 and 2012, other receivables consist of the following and are expected to be collected within one year:

	2013	2012
Trade Receivables (Pass Sales)	$ 1,393,074	$ 793,270
LA Metro	261,813	-
Other Trade Receivables	94,827	118,142
Total	$ 1,749,714	$ 911,412

Note 6: Capital Assets

Changes in the capital assets by category for the year ended June 30, 2013, are as follows:

	Balance July 1, 2012	Adjustments/ Transfers	Additions	Reductions	Balance June 30, 2013
Capital assets not being depreciated					
Land	$ 10,132,713	$ -	$ -	$ -	$ 10,132,713
Construction in progress	2,695,539	-	9,447,309	-	12,142,848
Total capital assets not being deperciated	12,828,252	-	9,447,309	-	22,275,561
Other capital assets					
Facility	83,696,116	-	1,382,245	-	85,078,361
Transit buses	142,853,434	-	146,069	(331,267)	142,668,236
Other operating equipment	37,675,032	-	3,352,803	-	41,027,835
Vehicles	4,692,338	-	511,441	(4,209,947)	993,833
Furniture and fixtures	706,422	-	62,436	-	768,858
Total other capital assets at historicial cost	269,623,342	-	5,454,994	(4,541,214)	270,537,122
Accumulated depreciation					
Facility	(27,482,961)	-	(3,177,504)	-	(30,660,465)
Transit buses	(75,775,973)	-	(11,254,824)	292,159	(86,738,638)
Other operating equipment	(21,103,307)	-	(4,237,996)	-	(25,341,303)
Vehicles	(4,458,059)	-	(250,323)	4,209,947	(498,435)
Furniture and fixtures	(625,185)	-	(50,972)	-	(676,157)
Total accumulated depreciation and amortization	(129,445,485)	-	(18,971,618)	4,502,106	(143,914,997)
Other capital assets, net	140,177,857	-	(13,516,624)	(39,108)	126,622,125
Total capital asset, net	$ 153,006,109	$ -	$ (4,069,315)	$ (39,108)	$ 148,897,686

Note 7: Management Contract and Transit Services Operating Agreements

a. Management Contract

Veolia Transportation provides most day-to-day administrative and operational management staff of Foothill Transit based on an amended and restated agreement between Foothill Transit and Veolia Transportation dated May 7, 2008. The agreement extends the current contract six years including the one year remaining on the original agreement with five renewal options exercisable at the sole discretion of the Executive Board.

Under the agreement, entered into May 7, 2008, Foothill Transit is obligated to pay monthly management fees to Veolia Transportation. This agreement may be canceled at Foothill Transit's sole discretion (without any liability, other than payment for services rendered) by providing 90 days written notice.

However, effective June 30, 2013, the administrative and management contract with Veolia was terminated (refer to note 11).

Management fee expenses for the years ended June 30, 2013 and 2012, were $7,927,140 and $7,676,421 respectively.

b. Transit Services Operating Agreements

Effective January 1, 2012, First Transit Services, Inc. was awarded a three year contract with three two year options for operating services at the Pomona Facility and on May 1, 2012, First Transit was award a three year contract with three two year options for operating services at the Arcadia facility. The award of this second contract has one contractor furnishing operating services for both of Foothill Transit's facilities. Under the terms of the agreements, Foothill Transit is required to cover 100% of the fuel cost which is estimated to be approximately $7-$7.5 million per year.

Such agreements are cancelable at Foothill Transit's option if determined to be in its best interest. The agreements may also be terminated by Foothill Transit if (1) the contractor defaults or is guilty of misinterpretation or (2) the agreement is either obtained by unlawful means or conflicts with any California or federal law. On a combined basis, such entities have provided performance bonds totaling approximately $11.4 million for the protection of Foothill Transit.

The operation contracts with First Transit at both facilities are very similar compensating First Transit based on contractually determined rates per bus revenue mile. First Transit also receives a fixed fee for indirect overhead eliminating rate differentials for decreases or increases in bus revenue miles. The mileage rates are subject to adjustment in June of each year based on changes in the CPI for the year ending the previous May. Foothill Transit's related expense for service at the Arcadia Facility was $23,452,538 and $24,443,124 for the years ended June 30, 2013 and 2012, respectively. The Pomona service expense was $21,483,990 and $20,257,189 for the years ended June 30, 2013 and 2012, respectively.

Note 8: Commitments and Contingencies

a. Operating Lease Commitments

Foothill Transit leases certain facilities and equipment under long-term lease agreements. Foothill Transit leases space for a Transit Store in the Puente Hills Mall. This lease is scheduled to expire October 31, 2015. Monthly rent includes a base amount of $1,173

Note 8: Commitments and Contingencies (Continued)

plus additional charges for marketing, taxes and insurance. Currently the additional charges total $2,088 for a total monthly rent of $3,262. Rent expense for the years ended June 30, 2013 and 2012, was $54,817 and $55,683.

b. Legal Matters

In the ordinary course of business, Foothill Transit is subject to certain lawsuits and other potential legal actions. In the opinion of management, such matters will not have a material effect on the financial position of Foothill Transit.

Note 9: Operating Lease Income

Foothill Transit is the lessor in several non-cancellable operating leases for surplus office space in the administrative offices building. Two of the administrative offices building's six floors are leased, the first floor is leased to Chase and the fourth floor is leased to three different entities. The cost of the two leased floors approximates $5,982,412 or one third of the building cost at June 30, 2013. The carrying value is $4,544,439 net of accumulated depreciation of $1,437,973.

The future minimum lease rentals in the aggregate for each of the five succeeding fiscal years are:

Year Ending June 30	Lease Revenue
2014	369,250
2015	337,533
2016	348,265
2017	274,824
2018	274,677
Total	$ 1,604,549

Note 10: Risk Management

Foothill Transit carries commercial insurance to protect against potential losses, including coverage for the following: commercial general liability, excess liability, public officials and employee liability, computer equipment (including media and data protection), commercial property (including personal property and business income), and pollution liability (including loss remediation or legal expense coverage).

Foothill Transit also requires its contract transit operators to provide, as a contract requirement, insurance coverage naming Foothill Transit as an additional insured on their commercial general liability, automobile liability, excess liability, and workers' compensation policies.

There were no reductions in coverage or claims in excess of coverage during the fiscal years ended June 30, 2013, 2012, and 2011. The following schedule of claims and payments for the previous three fiscal years also indicates that settlements have not exceeded coverage for these periods:

Note 10: Risk Management (continued)

Years Ending June 30,	Claims Payable July 1st	Claims & Changes in Estimates	Claims Payments	Claims Payable June 30
2011	$ -	$ -	$ -	$ -
2012	-	-	-	-
2013	-	-	-	-

Note 11: Subsequent Events

Foothill Transit terminated the administrative and management services contract with Veolia Transportation on June 30, 2013 and retained the Transit Stores and Facilities contract services with Veolia. Approximately 84% of the management and administrative employees of Veolia were hired by Foothill Transit effective July 1, 2013 including the senior executive positions and department heads in the organization. The transition to hiring Foothill Transit employees directly is not expected to affect its management and operations.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Schedule of Expenditures of Federal Awards
June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Direct Programs			
Federal Transit Administration:			
Federal Transit Formula Grants*:			
Section 5309 - Capital Investment Grant	20.500	CA-04-0093	$ 2,490,571
	20.500	CA-04-0210	2,803,142
	20.500	CA-04-0253	152,523
			5,446,236
Section 5307 - Formula Grant (ARRA)	20.507	CA-96-X010	513,794
Section 5307 - Formula Grant	20.507	CA-90-Y653	1,633,565
		CA-90-Y987	3,081
		CA-95-X138	506,488
			2,656,928
Total U.S. Department of Transportation			**8,103,164**
U.S. Department of Homeland Security			
Direct Program:			
Federal Emergency Management Agency:			
Rail and Transit Security Grant Program*	97.075	2009-RA-T9-K019	1,082,205
Passed through the State of California			
Emergency Management Agency:			
Rail and Transit Security Grant Program*	97.075	2008-RL-T8-K0018	23,717
Total U.S. Department of Homeland Security			**1,105,922**
			$ 9,209,086

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was $0.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Schedule of Expenditures of Federal Awards
June 30, 2013

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by Foothill Transit that are reimbursable under federal programs of the federal financial assistance. For the purpose of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly for a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recognized when incurred. Expenditures are incurred when Foothill Transit becomes obligated for payment as a result of the receipt of related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

Statistical Section

Statistical Section

This part of Foothill Transit's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the agency's overall financial health.

<u>Contents</u> **<u>Page</u>**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The agency implemented GASB Statement 34 in 2002; schedules presenting agency wide information include information beginning in that year.

Foothill Transit

Net Position

Last Ten Fiscal Years

Fiscal Year	Investments in Capital Assets (Net)	Restricted	Unrestricted	Total Net Assets
2004	$ 94,066,739	$ 26,254,056	$ -	$ 120,320,795
2005	118,295,964	24,512,449	-	142,808,413
2006	122,717,282	24,487,450	-	147,204,732
2007	166,066,308	23,361,221	-	189,427,529
2008	154,957,324	25,035,711	-	179,993,035
2009	166,570,890	24,794,654	-	191,365,544
2010	153,466,484	24,673,168	-	178,139,652
2011	152,768,075	24,550,008	-	177,318,083
2012	152,006,110	24,751,704	-	176,757,814
2013	148,897,686	25,382,942	-	174,280,628

Source: Foothill Transit Finance Department

Foothill Transit

Changes in Net Position

Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Operating Expense	Operating Income (Loss)	Nonoperating Revenues/ Expenses	Income/(Loss) Before Contributions	Capital Contributions	Change in Net Assets
2004	$ 15,543,642	$ 62,283,117	$ (46,739,475)	$ 36,655,066	$ (10,084,409)	$ 21,333,538	$ 11,249,129
2005	15,185,794	65,312,779	(50,126,985)	38,953,918	(11,173,067)	33,660,688	22,487,621
2006	17,304,113	69,985,981	(52,681,868)	40,663,899	(12,017,969)	16,414,288	4,396,319
2007	17,383,615	74,196,948	(56,813,333)	43,089,186	(13,724,147)	55,946,944	42,222,797
2008	18,170,179	84,949,972	(66,779,793)	50,739,546	(16,040,247)	6,605,753	(9,434,494)
2009	18,291,655	84,782,327	(66,490,672)	49,642,554	(16,848,118)	28,220,627	11,372,509
2010	18,186,656	85,141,072	(66,954,416)	45,444,021	(21,510,395)	8,284,503	(13,225,892)
2011	18,507,098	77,336,333	(58,829,235)	41,320,176	(17,509,059)	16,687,490	(821,569)
2012	19,585,484	80,246,868	(60,661,384)	42,831,809	(17,829,575)	17,269,306	(560,269)
2013	19,550,489	82,534,239	(62,983,750)	44,012,132	(18,971,618)	16,494,432	(2,477,186)

Source: Foothill Transit Finance Department

Foothill Transit

Operating Revenues by Source

Last Ten Fiscal Years

Fiscal Year	Farebox and Bus Pass Revenue	Special Services	Dial-A-Ride	Liquidated Damages	Other Revenue	Total
2004	$ 14,233,259	$ 661,581	$ 519,060	$ 93,700	$ 36,042	$ 15,543,642
2005	13,526,456	818,588	494,524	310,577	35,649	15,185,794
2006	15,816,183	863,317	458,507	144,900	21,206	17,304,113
2007	15,837,063	910,826	470,664	89,250	75,812	17,383,615
2008	16,503,879	862,745	542,873	235,350	25,332	18,170,179
2009	16,811,793	612,964	583,902	204,050	78,946	18,291,655
2010	16,454,980	744,039	594,913	251,950	140,774	18,186,656
2011	17,238,311	386,031	667,633	124,200	90,923	18,507,098
2012	18,496,259	204,227	729,537	97,100	58,361	19,585,484
2013	18,441,434	254,517	714,543	33,000	106,995	19,550,489

Source: Foothill Transit Finance Department

Foothill Transit

Nonoperating Revenues and Expenditures

Last Ten Fiscal Years

Fiscal Year	Operating Grants	Interest	Gain (Loss) on Disposal of Assets	Other Expenses	Property Management	Total Nonoperating Revenue
2004	$ 37,793,857	$ 315,053	$ (1,421,388)	$ (32,456)	$ -	$ 36,655,066
2005	39,109,821	424,471	(557,428)	(22,946)	-	38,953,918
2006	40,340,302	564,360	(291,667)	-	50,904	40,663,899
2007	42,462,266	670,583	(20,767)	12,480	(35,376)	43,089,186
2008	49,553,761	939,589	(20,191)	(35,491)	301,878	50,739,546
2009	48,801,545	454,230	70,373	(41,694)	358,100	49,642,554
2010	45,830,120	54,695	(746,515)	(47,137)	352,858	45,444,021
2011	41,388,504	36,145	105,429	-	(209,902)	41,320,176
2012	43,206,876	75,137	3,154	(197,324)	(256,034)	42,831,809
2013	43,775,320	101,057	320,719	-	($184,964)	44,012,132

Source: Foothill Transit Finance Department

Foothill Transit

Operating Expenses

Last Ten Fiscal Years

Fiscal Year	Transit Operations	Fuel Cost	Management Service Contract	Special Services	Dial-A-Ride Expenditures	Professional Services	Advertising	General & Administrative	Depreciation	Total Operating Expenses
2004	$37,913,831	$ 5,909,442	$ 4,815,760	$ 477,738	$509,524	$ 778,132	$359,997	$ 1,964,232	$9,554,461	$ 62,283,117
2005	37,638,709	7,771,424	5,083,432	561,473	484,702	829,635	431,584	2,032,320	10,479,500	65,312,779
2006	39,364,590	9,764,546	5,484,579	576,080	448,361	796,178	300,446	1,611,099	11,640,102	69,985,981
2007	40,536,232	9,336,406	6,148,767	650,391	460,015	990,646	355,110	2,160,881	13,558,500	74,196,948
2008	46,832,993	11,016,127	6,290,700	513,214	531,911	1,043,942	396,868	2,340,172	15,984,045	84,949,972
2009	47,926,526	9,042,246	6,617,100	412,170	572,315	1,098,836	337,098	1,969,613	16,806,423	84,782,327
2010	45,777,304	7,300,610	6,870,100	440,220	583,545	912,625	259,169	2,455,503	20,541,996	85,141,072
2011	42,546,290	6,369,946	6,450,062	224,755	656,265	1,113,036	216,422	2,250,497	17,509,060	77,336,333
2012	44,700,314	5,899,524	7,293,707	131,384	718,033	1,264,497	318,188	2,288,971	17,632,250	80,246,868
2013	44,936,529	5,834,816	7,927,140	168,930	702,729	1,187,901	397,940	2,406,636	18,971,618	82,534,239

Source: Foothill Transit Finance Department

Foothill Transit

Capital Assets Grant Contributions

Last Ten Fiscal Years

Fiscal Year	Proposition "C"	Federal Transit Administration	State Transit Assistance	Transportation Development Act	Prop 1B/ Homeland Sec/ AQMD	Total
2004	$ 1,460,243	$ 14,811,792	$ 61,925	$ 4,999,578	$ -	$ 21,333,538
2005	11,412,603	20,515,600	672,822	1,059,663	-	33,660,688
2006	2,866,959	9,127,554	43,048	3,035,718	1,341,009	16,414,288
2007	10,488,287	32,512,710	1,095,851	11,850,096	-	55,946,944
2008	626,354	2,082,899	44,645	3,136,855	715,000	6,605,753
2009	5,666,928	18,957,172	-	3,440,035	156,492	28,220,627
2010	1,319,670	6,453,233	-	337,734	173,866	8,284,503
2011	2,734,459	12,998,934	-	637,113	316,984	16,687,490
2012	5,970,133	10,618,400	120,998	113,824	445,951	17,269,306
2013	2,578,725	8,678,882	4,624,005	412,909	199,911	16,494,432

Source: Foothill Transit Finance Department

Foothill Transit

Tax Revenues

Last Ten Fiscal Years

(in Thousands)

	Foothill Transit[1]						Los Angeles County [5]				
Fiscal Year	TDA [2]	STA [3]	Prop "A" [4]	Measure "R"	Total	% of LA County	TDA [1]	STA [2]	Prop "A" [3]	Measure "R"	Total
2004	$ 17,885	$ 1,002	$11,919	$ -	$30,806	3.51%	$287,350	$ 28,122	$ 563,127	$ -	$ 878,599
2005	20,555	1,160	13,325	-	35,040	3.77%	304,661	29,485	594,955	-	929,101
2006	18,486	1,861	11,836	-	32,183	3.24%	317,824	54,792	619,348	-	991,964
2007	20,629	2,486	12,347	-	35,462	3.18%	350,835	73,293	692,044	-	1,116,172
2008	24,482	3,247	13,951	-	41,680	3.47%	377,268	80,204	743,829	-	1,201,301
2009	23,059	8,667	13,800	-	45,526	3.47%	366,790	225,465	719,109	-	1,311,364
2010	14,962	-	12,043	5,260	32,265	2.49%	280,300	-	605,884	411,953	1,298,137
2011	14,254	3,825	12,741	6,663	37,483	2.43%	297,280	62,806	589,803	589,852	1,539,741
2012	17,434	3,296	13,414	7,901	42,045	2.52%	323,557	64,853	642,641	638,260	1,669,311
2013	17,441	4,890	13,026	7,886	43,243	2.58%	323,625	67,605	639,043	644,738	1,675,011

Source: LA Metro funding allocations

1) Tax revenues allocated to Foothill Transit
2) 1/4% of the Sales Tax revenue
3) 50% of Sales Tax revenue from the sale of diesel and gasoline fuel
4) Additional 1/2% Sales Tax approved by Los Angeles voters (Proposition "A")
5) Total funding received by LA County for allocation to Transit Operators.

Foothill Transits operating revenues are only sufficient to cover 24% to 27% of the operating expenditures and is therefore reliant on the above Sales Tax revenues.

Foothill Transit

Annual Farebox and Bus Pass Revenue

Last Ten Fiscal Years

Fiscal Year	01 Cash	02 Passes	03 MetroCards[1]	04 EZ Transit Passes	Other Revenue	Total
2004	$ 8,620,340	$ 3,743,044	$ 938,317	$ 902,672	$ 28,886	$ 14,233,259
2005	8,688,233	2,700,705	1,247,621	870,492	19,405	13,526,456
2006	9,896,655	3,478,192	1,148,722	1,263,697	28,917	15,816,183
2007	9,886,576	2,901,507	1,253,953	1,766,158	28,869	15,837,063
2008	10,643,410	3,232,105	1,306,149	1,296,241	25,974	16,503,879
2009	10,831,738	3,085,010	1,404,858	1,462,852	27,335	16,811,793
2010	10,179,166	2,777,711	1,951,048	1,518,315	28,740	16,454,980
2011	10,965,031	3,230,792	1,836,503	1,172,952	33,033	17,238,311
2012	11,328,797	3,172,065	2,325,421	1,581,058	88,918	18,496,259
2013	10,885,441	3,178,410	2,335,453	1,456,385	585,744	18,441,434

Source: Foothill Transit Finance Department

1) Magnetic cash card (similar to cash gift card) prior to FY 08-09, thereafter smartcard technology

Foothill Transit

Cash Fares

Last Ten Fiscal Years

Fiscal Year	Local Adult	Local Senior/ Disabled[1]	Local Student[2]	Local Plus Adult	Local Plus Senior/ Disabled[1]	Local Plus Student[2]	Commuter Express Adult	Commuter Express Senior/ Disabled[1]	Commuter Express Student[2]
2004	1.10	0.55	1.10	2.75	-	-	3.35	-	-
2005	1.10	0.55	1.10	2.75	-	-	3.35	-	-
2006	1.00	0.50	1.00	3.00	1.50	1.50	3.50	1.75	1.75
2007	1.00	0.50	1.00	2.00 [3]	1.00 [3,4]	2.00 [3]	3.65	1.80	3.35
2008	1.00	0.50	1.00	2.50 [3]	1.25 [3,4]	2.50 [3]	4.40	4.40 [5]	4.40 [5]
2009	1.00	0.50	1.00	2.50 [3]	1.25 [3,4]	2.50 [3]	4.40	4.40 [5]	4.40 [5]
2010 [6]	1.25	0.50	1.25	2.75 [3]	1.35 [3,4]	2.75 [3]	4.90	4.90 [5]	4.90 [5]
2011	1.25	0.50	1.25	2.75 [3]	1.35 [3,4]	2.75 [3]	4.90	4.90 [5]	4.90 [5]
2012	1.25	0.50	1.25	2.75 [3]	1.35 [3,4]	2.75 [3]	4.90	4.90 [5]	4.90 [5]
2013	1.25	0.50	1.25	2.75 [3]	1.35 [3,4]	2.75 [3]	4.90	4.90 [5]	4.90 [5]

Source: Foothill Transit Finance Department

1) Includes Medicare eligible customers
2) Includes K-12 and college eligible customers
3) New Service (Silver Streak) replace Local Plus
4) Discount fare only applies to non-peak service hours of operation, (Mon-Fri 10AM - 2PM and 8PM - 4AM), full fare or $2.75 for peak service hours.
5) Commuter Express Service is ONLY operated during peak service periods
6) Fare increase effective June 27, 2010

Foothill Transit

Outstanding Debt

Last Ten Fiscal Years

Fiscal Year	Capital Lease	Total Debt	Annual Passengers	Debt per Passenger
2004	$ 5,100,000	$ 5,100,000	$ 14,986,196	0.340
2005	4,800,000	4,800,000	14,747,521	0.325
2006	4,500,000	4,500,000	14,664,799	0.307
2007	1,900,000	1,900,000	14,392,111	0.132
2008	1,600,000	1,600,000	14,561,890	0.110
2009	1,300,000	1,300,000	14,203,429	0.092
2010	1,000,000	1,000,000	14,272,436	0.070
2011	1,000,000	1,000,000	13,750,232	0.073
2012	1,000,000	1,000,000	13,860,335	0.072
2013	-	-	14,079,592	0.000

Source: Foothill Transit Finance Department

Foothill Transit

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	Unemployment Rate	Population[1] (000)	School Enrollment[2] (000)	Personal Income Total (000)	Personal Income Per Capita	Consumer Price Index[3] Value	Consumer Price Index[3] % Change
2004	6.4%	$ 10,107	$ 1,743	$ 468,524	$ 36,705	193.7	3.97%
2005	5.2%	10,226	1,734	496,595	38,915	200.5	3.51%
2006	4.8%	10,245	1,708	536,323	42,185	212.4	5.93%
2007	4.7%	10,332	1,673	553,813	43,633	218.6	2.82%
2008	6.8%	10,364	1,649	567,707	44,462	229.0	5.40%
2009	10.8%	10,393	1,632	550,831	42,784	223.9	-2.60%
2010	11.6%	10,441	1,574	410,674	41,791	225.9	0.88%
2011	13.3%	9,858	1,590	422,584 [4]	43,003 [4]	232.3	2.90%
2012	11.1%	9,884	1,575	429,345 [4]	44,250 [4]	236.0	1.60%
2013	10.8%	9,958	1,785	420,913 [4]	42,564 [4]	238.9	1.23%

Source: Foothill Transit Finance Department

1) State of California Department of Finance
2) California Department of Education
3) US Department of Labor Statistics
4) Data not available, amounts increased by CPI.

Foothill Transit

Ten Principal Employers Los Angeles County

2011[1] and 2006

Employer	2011 Number of Employees	2011 Percentage of Total	2011 Rank	2006 Number of Employees	2006 Percentage of Total	2006 Rank
County of Los Angeles	95,700	2.15%	1	93,200	2.65%	1
Los Angeles Unified School District	73,300	1.65%	2	74,632	2.12%	2
Federal Government	48,100	1.08%	3	53,200	1.51%	3
City of Los Angeles	47,700	1.07%	4	53,171	1.51%	4
University of California, Los Angeles	41,000	0.92%	5	35,543	1.01%	5
Kaiser Permanente	36,500	0.82%	6	32,180	0.91%	6
State of California	30,400	0.68%	7	30,200	0.86%	7
Northrop Grumman Corp.	18,000	0.40%	8	21,000	0.60%	8
University of Southern California	16,600	0.37%	9	-	0.00%	
Target Corp.	14,200	0.32%	10	-	0.00%	
Kroger's Co.	-	0.00%		14,000	0.40%	10
Boeing	-	0.00%		15,825	0.45%	9
All Other Employers	4,030,100	90.53%		3,100,484	88.00%	
Total	4,451,600	100.00%		3,523,435	100.00%	

Source: Los Angeles Almanac; California Employment Development Department

1) Most current information available

Foothill Transit

Operating and Capital Indicators

LastTen Fiscal Years

Fiscal Year	Buses	Maintenance Facilities	Routes	Veh Service Hours (000)	Cost/Vehicle Service Hr.	Boarding/ Vehicle Service Hr	Passengers (000)	Farebox Recovery Ratio
2004	306	2	34	761	67.93	19.9	15,123	27.2%
2005	306	2	37	743	66.06	19.9	14,803	25.2%
2006	306	2	37	736	77.88	20.8	14,889	28.3%
2007	314	2	36	741	85.93	20.3	14,560	25.0%
2008	314	2	36	768	87.53	19.5	14,974	24.6%
2009	314	2	36	767	87.20	19.4	14,848	25.1%
2010	316	2	35	746	85.19	19.4	14,437	26.0%
2011	300	2	35	671	88.63	20.8	13,985	29.0%
2012	314	2	39	672	83.40	20.7	13,909	32.4%
2013	314	2	35	687	91.97	20.5	14,080	29.2%

Source: Foothill Transit Finance Department

Foothill Transit

Miscellaneous Statistics

Date Formed	December 1988
Type of Organization	Joint Powers Authority
Membership	22 Los Angeles County Cities and County of Los Angeles
Number of Executive Board Members	5
Number of Employees	Administration and Operations contracted to private enterprises
Type of Tax Support	Proposition A 1/2% Sales tax Proposition C 1/2% Sales tax Measure R 1/2% Sales Tax
Service area	San Gabriel & Pomona Valleys, Los Angeles County, CA
Contract services provided by:	
Administration	Veolia Transportation
Bus Operations	First Transit, USA and MV Transportation
Number of Buses in Fleet:	
Diesel Powered	23
Compressed Natural Gas Powered	288
Electric Powered	3
Operational and Maintenance Facilities	2
Sales Outlets (Transit Stores)	5
Bus Routes/Lines:	
Express	8
Local	27
Bus Stops	3,200
Annual Service Hours[1]	686,915
Annual Passengers[1]	14,079,592
Average Weekday Boardings[1]	46,899

Source: Foothill Transit Finance Department

1) Fiscal Year 2012-13

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Compliance Report

LSL
CERTIFIED PUBLIC ACCOUNTANTS

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- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate remaining fund information of Foothill Transit Authority, West Covina, California, (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013

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Brandon W. Burrows, CPA, Retired

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Report on Compliance for Each Major Federal Program

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Foothill Transit Authority, California's major federal programs for the year ended June 30, 2013. Foothill Transit Authority, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of Foothill Transit Authority, California's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Foothill Transit Authority, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of Foothill Transit Authority, California's compliance.

Opinion on Each Major Federal Program

In our opinion, Foothill Transit Authority, California complied, in all material respects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended June 30, 2013.

LSL
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Report on Internal Control over Compliance

Management of Foothill Transit Authority, California is responsible for establishing and maintain effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foothill Transit Authority, California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill Transit Authority, California's internal control over compliance.

A *deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

• Significant deficiencies identified?	____yes	__X__no
• Material weaknesses identified?	____yes	__X__none reported
Noncompliance material to financial statements noted?	____yes	__X__no

Federal Awards

Internal control over major programs:

• Significant deficiencies identified?	____yes	__X__no
• Material weaknesses identified?	____yes	__X__none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____yes	__X__no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.500	Federal Transit Capital Investment Grant
20.507	Federal Transit Formula Grant
97.075	Rail and Transit Security Grant Program

Dollar threshold used to distinguish between type A and type B program $300,000

Auditee qualified as low-risk auditee?	__X__yes	____no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE WITH THE STATE OF CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE OF CALIFORNIA TRANSPORTATION DEVELOPMENT ACT

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's (the Authority) compliance with the types of compliance requirements described in the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA, that could have a direct and material effect on Foothill Transit's compliance with the State of California Transportation Development Act for the year ended June 30, 2013. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a TDA and Proposition 1B programs occurred. An audit includes examining, on a test basis, evidence about Foothill Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Foothill Transit's compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA, that could have a direct and material effect on the TDA and Proposition 1B programs for the year ended June 30, 2013. The accompanying schedule of PTMISEA Funds is presented for purposes of additional analysis as required by the TDA, per PUC 99245 and is not a required part of the basic financial statements.

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA. In planning and performing our audit, we considered Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as below. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Six Month Reporting Period

In the terms of the TDA, a copy of the annual audit report must be submitted to the California Department of Transportation (the Department) within six months of the close of the year (December 31) each year in which PTMISEA funds have been received or expended. The 2012 annual audit report was submitted to the Department on August 8, 2013, which exceeded the six month period.

This report is intended solely for the information and use of management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013

SCHEDULE OF PTMISEA FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

RECEIPTS	PROGRAM INCOME	EXPENSES	UNEARNED REVENUE	RECEIVABLE
$ 5,113,908	$ 54,606	$ 1,942,794	$ 3,225,720	$ -

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE WITH PROPOSITION A AND PROPOSITION C DISCRETIONARY PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE PROPOSITION A AND PROPOSITION C DISCRETIONARY PROGRAMS

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 40% Discretionary Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA), that could have a direct and material effect on Foothill Transit's compliance with Proposition A and Proposition C Discretionary programs for the year ended June 30, 2013. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the Proposition A and Proposition C programs occurred. An audit includes examining, on a test basis, evidence about the compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 40% Discretionary Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA), that could have a direct and material effect on the Proposition A and Proposition C Discretionary programs for the year ended June 30, 2013.

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the requirements of the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 40% Discretionary Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA). In planning and performing our audit, we considered the Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill

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Orange County Temecula Valley Silicon Valley

CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill Transit's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements referred to above on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the requirements referred to above will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be *material weaknesses,* as defined above.

This report is intended solely for the information and use management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE WITH THE MEASURE R PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE MEASURE R PROGRAM

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA, that could have a direct and material effect on Foothill Transit's compliance with Measure R Program for the year ended June 30, 2013. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Measure R program occurred. An audit includes examining, on a test basis, evidence about Foothill Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Foothill Transit's compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA, that could have a direct and material effect on the Measure R program for the year ended June 30, 2013.

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the requirements described in Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA. In planning and performing our audit, we considered Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill Transit's internal control over compliance.

LSL
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements referred to above on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the requirements referred to above will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

Brea, California
August 23, 2013